

## Briefs

## Food &amp; Marketing

## Modest Rise in Food Prices This Year

Consumers can expect modest increases in food prices for the fourth year in a row, with the Consumer Price Index (CPI) for all food projected to be up 2 to 2.5 percent in 2001, compared with 2.3 percent in 2000. This continues a long-term trend of food prices rising slightly less than the general inflation rate, forecast at 3 percent in 2001. For food prepared at home, the CPI in 2001 is projected to rise 2 to 2.5 percent, with food away from home up 2.5 to 3 percent.

In 2000, sales of food at home are forecast to increase 5.1 percent, while food-away-from-home sales are forecast to increase 9.7 percent in 2000. As a result, expenditures for all food in 2000 could increase to \$842.7 billion from \$788.6 billion in 1999. Rising incomes are chiefly responsible for the increased spending on food away from home, which could amount to 48 percent of total food expenditures in 2000. Higher energy prices did not translate into higher food prices in 2000, largely because transportation and energy costs together are less than 10 percent of the total food marketing bill (which constitutes 80 cents of every dollar of consumers' food expenditures, compared with 20 cents that goes to the farmer).

Food price changes are key to shifts in the proportion of income consumers spend for food. In 1999, this proportion was 10.4 percent of household disposable personal income, with 6.2 percent for food at home and 4.2 percent for food away from home. The downward trend in the share of household disposable personal income spent on food should continue into 2000 and 2001. In 2001, consumer spending is expected to grow by 3 percent but will be held in check by a tight labor market, more limited credit, and higher energy prices.

**Meats.** U.S. red meat and poultry production posted nearly a 1-percent gain in 2000, and retail prices were higher for all meats, especially beef and pork. In 2001, meat output is expected to be unchanged, with poultry, hog, and turkey producer prices remaining steady or declining.

Continuing large meat production, lackluster export growth, and a slowing domestic economy may pressure wholesale and retail prices downward.

**Beef and veal.** Beef production was up 1.5 percent in 2000, with prices for retail Choice beef at a record \$3.06 a pound. The beef CPI rose 6.4 percent in 2000 and is expected to increase 3 to 4 percent in 2001. First-half 2001 beef output is likely to decline 3 to 4 percent from a year earlier, while second-half production may decline 5 to 6 percent. The slowing economy is expected to dampen demand for higher quality cuts of beef, which led to the record-setting retail prices in 2000.

**Pork.** Retail pork prices rose a sharp 7.3 percent in 2000, with the 2001 CPI expected to increase 2 to 3 percent. Commercial pork production in 2001 is forecast at 19.3 billion pounds, up almost 2 percent from 2000, and, if realized, would be just above the 1999 record. Per

capita pork and competing meat consumption should stay about the same in 2001. The slowing economy and sharply higher energy costs may temper consumer demand for beef and pork this season.

**Poultry.** The CPI for poultry increased 1.2 percent in 2000, with a rise of 1 to 2 percent expected in 2001. Broiler production in 2001 is forecast at 31 billion pounds, up about 1.5 percent from 2000. Responding to low prices through most of 2000, broiler producers have indicated that they will slow production growth in 2001. With strong exports to the three largest markets (Russia, Mexico, and China/Hong Kong) and a number of smaller markets, U.S. broiler exports surged to over 5.5 billion pounds in 2000 and are expected to be 5.7 billion pounds in 2001. Competition in export markets is expected to continue driving the poultry industry's ability to efficiently convert feed to meat, lowering its cost relative to beef and pork.

**Fish and seafood.** The CPI for fish and seafood was up 2.8 percent in 2000, with an expected increase of 2 to 3 percent in 2001. U.S. per capita seafood consump-

Changes in Food Price Indicators, 1999 through 2001

	Relative weights*	1999	2000	Forecast 2001
	Percent	Percent change		
All items		2.2	3.3	3.0
All food	100.0	2.1	2.3	2 to 2.5
Food away from home	37.2	2.5	2.4	2.5 to 3
Food at home	62.8	1.9	2.3	2 to 2.5
Meats	10.8	0.5	5.9	2 to 3
Beef and veal	5.0	2.0	6.4	3 to 4
Pork	3.7	-1.8	7.3	2 to 3
Other meats	2.2	1.0	2.6	2 to 3
Poultry	3.1	0.5	1.2	1 to 2
Fish and seafood	2.2	2.0	2.8	2 to 3
Eggs	0.8	-5.4	3.0	6 to 7
Dairy products	6.9	5.8	0.7	1 to 3
Fats and oils	1.9	1.0	-0.6	1 to 2
Fruits and vegetables	9.6	2.5	0.7	2 to 3
Fresh fruits and vegetables	7.5	2.8	-0.7	3 to 4
Fresh fruits	3.8	8.0	-3.0	1 to 2
Fresh vegetables	3.7	-3.0	4.8	4 to 6
Processed fruits and vegetables	2.1	2.1	1.1	1 to 2
Sugar and sweets	2.4	1.4	1.1	1 to 2
Cereal and bakery products	10.0	2.2	1.8	2 to 3
Nonalcoholic beverages	6.7	1.0	2.6	2 to 3
Other foods	8.4	2.1	2.0	2 to 3

\*Bureau of Labor Statistics estimated weights as share of all food, December 2000.

Sources: Historical data, Bureau of Labor Statistics; forecasts, Economic Research Service.

Economic Research Service, USDA

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tion has remained flat, between 14.8 and 15.2 pounds of edible meat per year, with population growth accounting for increases in total domestic seafood consumption. A strong U.S. economy in 2000 boosted away-from-home food demand as people traveled and ate out more. This was especially important for seafood, as a large percentage is consumed at restaurants. More than 50 percent of fish and seafood consumed in the U.S. in 2000 came from imports, with another 20 to 25 percent from U.S. farm-raised production.

**Eggs.** Retail egg prices increased 3 percent in 2000, with an increase of 6 to 7 percent expected in 2001. Table-egg production rose 2 percent in 2000, while hatching-egg production was flat. Retail egg prices were highest during the fourth quarter, reflecting seasonal demand as well as supplies that were only 2 percent above third-quarter supplies. Per capita consumption is expected to reach 258 eggs in 2001, down slightly from 2000.

**Dairy and related products.** Prices rose 0.7 percent in 2000, following a 5.8-percent increase in 1999. Strong consumer demand for dairy items, notably gourmet ice cream, cheese, and butterfat products, is expected to continue this year, with the CPI for dairy products rising 1 to 3 percent. Growth in milk output is expected to ease slightly in 2001, after consumer demand outstripped supplies in 1998 and 1999. Most fluid milk is still sold at retail, but cheese and butter are used mostly by away-from-home eating establishments or by manufacturers of processed foods. Greater away-from-home dining has reduced fluid milk sales as people tend to order other beverages in restaurants.

**Fats and oils.** Prices fell 0.6 percent in 2000, but are expected to increase 1 to 2 percent in 2001. The decrease in the 2000 index was due largely to lower retail prices for butter, which accounts for 31 percent of the fats and oils index. The remaining items in the fats-and-oils index are highly processed foods, with price changes influenced by the general inflation rate in addition to U.S. and world supplies of vegetable oils.

**Fresh fruits.** The 1999/2000 citrus crop rebounded in California, leading to a 3-percent decrease in the fresh fruit price

index in 2000. Large supplies of other major fruits also contributed to a decrease in the fresh fruits CPI. With the 2000/01 citrus crop and supplies of noncitrus fruits expected to be about the same as last year, and with continued strong U.S. consumer demand for fresh fruits, the fresh fruits CPI is expected to increase only 1 to 2 percent in 2001.

**Fresh vegetables.** The CPI for fresh vegetables increased 4.8 percent in 2000 due to lower production and strong demand for fresh vegetables. Fresh-market vegetable harvested area was estimated down about 1 percent from 1999 in response to lower grower prices.

A combination of reduced winter acreage in first-quarter 2001 and several bouts of sub-freezing weather in Florida have reduced fresh-market vegetable supplies—particularly green peppers, snap beans, squash, eggplant, tomatoes, and cucumbers. Low prices for leafy green and other cool-season vegetables from California have helped offset higher prices for Florida vegetables. Retail prices for potatoes, the most heavily weighted item in the fresh vegetable CPI, are low this year due to a record-large fall crop. While imports will help fill some of the supply gaps, the impact of the Florida freeze on prices may continue until April. However, vegetable growers have indicated they expect harvested acreage to be down 2 percent in winter 2000/01. Combined with the Florida freeze, this should raise the fresh vegetable index another 4 to 6 percent in 2001.

### **Processed fruits and vegetables.**

Adequate supplies of most fruits and vegetables for processing limited the CPI increase for processed fruits and vegetables to 1.1 percent in 2000. With lower supplies of processed vegetables and adequate supplies of frozen concentrate orange juice and other fruit expected in 2001, the CPI for processed fruits and vegetables is expected up 1 to 2 percent.

**Sugar and sweets.** Domestic sugar production for 1999/2000 was a record 9 million tons, more than 600,000 tons above the previous marketing year. Low prices for soybeans, corn, wheat, barley, and rice led farmers to shift acreage to sugar. With relatively low inflation and increased output, the CPI for sugar and sweets

increased only 1.1 percent in 2000. While demand for sugar and sugar-related products continues to rise, large U.S. sugar supplies are outpacing demand. Per capita consumption of caloric sweeteners increased almost 20 pounds per person from 1990 to 2000, partly because inflation-adjusted retail prices dropped dramatically—from 33 cents/lb. in 1990 to 26 cents/lb. in 2000—and also because of increased spending for away-from-home eating and consumers' willingness to treat themselves. With large sugar supplies expected again in 2000/01, the CPI for sugar and sweets is expected to increase a moderate 1 to 2 percent in 2001.

**Cereal and bakery products.** These items account for almost 16 percent of the at-home food CPI. With grain prices lower and inflation-related processing costs modest, the CPI for cereals and bakery products increased 1.8 percent in 2000. Most of the costs to produce cereal and bread products are for processing and marketing—more than 90 percent in most cases—so farm ingredients are a relatively minor cost consideration. With competition among producers and consumer demand for bakery products expected to remain fairly strong, the CPI is forecast up 2 to 3 percent in 2001.

**Nonalcoholic beverages.** The CPI for nonalcoholic beverages increased 2.6 percent in 2000 and is forecast to increase another 2 to 3 percent in 2001. Coffee and carbonated beverages are the two major components, accounting for 28 and 38 percent of the index. In 2000, retail prices were 1 percent higher for ground roast coffee and up 4 percent for soft drinks. World coffee production in 2000/01 is forecast record-high, nearly 2 percent above last year. Up to 80 percent of U.S. imports are arabica beans, and 15 to 20 percent are robustas—mainly for soluble (instant) coffee. Recent near-record production in Brazil, the largest producer of arabica, should lead to larger U.S. stocks and continued moderate consumer prices.



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For more information on food prices, see the Economic Research Service briefing room at [www.ers.usda.gov/briefing/CPIFoodAndExpenditures/](http://www.ers.usda.gov/briefing/CPIFoodAndExpenditures/)